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IN THE MATTER OF THE JOINT APPLICATION
OF SUN CITY WATER COMPANY AND SUN
CITY WEST UTILITIES COMPANY FOR
APPROVAL OF CENTRAL ARIZONA PROJECT
WATER UTILIZATION PLAN AND FOR AN
ACCOUNTING ORDER AUTHORIZING A
GROUNDWATER SAVINGS FEE AND
RECOVERY OF DEFERRED CENTRAL ARIZONA
PROJECT EXPENSES.

Docket Nos.: W-01656A-98-0577
SW-02334A-98-0577

**SUN CITY WATER COMPANY'S
AND SUN CITY WEST
UTILITIES COMPANY'S
RESPONSE TO COMMENTS**

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In accordance with Decision No. 62293, Sun City Water Company and Sun City West Utilities Company ("Citizens" or the "Companies") respond to comments filed by the Sun City Taxpayers Association ("SCTA"), RUCO and Commission Staff in this docket. On November 1, 2000, SCTA, RUCO and Staff filed comments on Citizens' Preliminary Engineering Report dated July 2000. On November 15, 2000, SCTA and Staff filed comments on the Companies' Binding Agreements for CAP water exchange with the Sun City and Sun City West golf courses (the "Binding Agreements"). Citizens responds to those comments below.

I. HISTORICAL BACKGROUND.

To fairly evaluate the comments filed by SCTA and RUCO, it's important to have a full understanding of the factual and legal background underlying this docket. SCTA's and RUCO's comments raise a laundry list of arguments against Citizens' CAP water plan on public interest and consumer benefit grounds. But those arguments already have been decided by final Commission decisions. See ACC Decision Nos. 60172 and 62293.

1 The only issue at stake now is how to implement the CAP water plan. This
2 compliance matter focuses solely on the implementation of and planning for the Sun
3 Cities/Youngtown Groundwater Savings Project ("GSP"). The Groundwater Savings Project is a
4 conceptual water use plan developed by the CAP Task Force. The CAP Task Force developed
5 the best plan for use of CAP water in the Sun Cities: a water exchange with local golf courses.
6 The project involves construction of a non-potable pipeline from the CAP canal to Citizens'
7 water campus (north of Sun City and east of Sun City West). Various Sun City and Sun City
8 West golf courses then will exchange their groundwater for Citizens' CAP water. CAP water
9 would be distributed to participating golf courses through an existing distribution system in Sun
10 City West and a newly constructed pipeline in Sun City.

11 SCTA and RUCO simply ignore the prior Commission decisions which have
12 approved the conceptual framework for this plan. Those decisions speak for themselves.

13 **A. Decision No. 60172.**

14 On August 17, 1995, Citizens filed an application with the Commission for
15 recognition of deferred and ongoing CAP water charges through a customer surcharge. See
16 Docket No. E-1032-95-417, et al. In Decision No. 60172, the Commission denied the surcharge
17 because Citizens was not providing CAP water to customers. See Decision No. 60172, p. 10.
18 The ACC determined that Citizens' CAP allocation was not yet "used and useful." Id.

19 Even so, the Commission made several findings that apply with full force and
20 effect to the pending docket:

- 21 • "We find that the Company's decision to obtain allocation of CAP water was a
22 prudent planning decision." Id. at p. 9.
- "We find...that the Company contracted for CAP [water] in order to meet the
continuing groundwater requirements for its existing customers...provided that
the CAP allocation will ultimately be used. The existing customers will benefit.

1 The new customers will also benefit from the CAP allocation by contributing to
2 the use of renewable sources of water that will be used in the Northwest Valley to
prevent diminished water quality, well failures, and future additional land
subsidence, and thereby protect their economic investment in the area.” Id.

- 3 • “We will, however, allow Citizens to defer CAP capital costs for future recovery
4 from ratepayers when the CAP allocation has been put to beneficial use for
Citizens’ ratepayers.” Id. at p. 10.

5 No party filed a Superior Court appeal of Decision No. 60172 under A.R.S. § 40-
6 254 and it became final and conclusive on those issues. As a matter of law, therefore, SCTA and
7 RUCO can’t collaterally attack Decision No. 60172 in this docket. See Kunkle Transfer &
8 Storage Co. v. Superior Court, 22 Ariz. App. 315, 526 P.2d 1270 (App. 1974). By statute, “[i]n
9 all collateral actions or proceedings, the orders or decisions of the Commission shall be
10 conclusive.” See A.R.S. § 40-252. Commission “decisions are conclusive and subject to review
11 by court only in the manner provided by statute (A.R.S. §§ 40-253 and 40-254). In the absence
12 of pursuing the statutory remedy, Commission orders or decisions are not subject to collateral
13 attack.” Kunkle, 22 Ariz. App. at 317, 265 P.2d at 437.

14 After Decision No. 60172 became effective, Citizens need not prove that
15 contracting for and retaining the CAP allocation was a prudent decision or that the CAP water
16 plan benefits Sun City customers. Instead, Citizens’ task was to develop a plan to use the CAP
water that would meet the Commission’s used and useful standard. Citizens did exactly that.

17 **B. The CAP Task Force and Decision No. 62293.**

18 In the wake of Decision No. 60172, Citizens filed an application for approval of a
19 CAP water utilization plan. Citizens relied on the CAP Task Force to decide if the CAP
20 allocation should be retained, and if so, how to use CAP water in the Sun Cities. The CAP Task
21 Force is a community-based organization in every sense of those words. It consists of the
22 following 19 members: the Recreation Centers of Sun City (2 members), the Recreation Centers

1 of Sun City West (2), the Sun City Condominium Owners Association (2), the Sun City
2 Homeowners Association (2), the Sun City Taxpayers Association (2), the Property Owners and
3 Residents Association (2), Citizens (2), Youngtown (1) and the public at large (4). See Decision
4 No. 62293, p. 4.

5 The CAP Task Force recommended retaining the CAP allocation, immediately
6 implementing an interim CAP water usage plan and employing a permanent CAP water usage
7 plan to provide direct benefit to the Sun Cities. The CAP Task Force made several key findings
8 in its final report:

- 9 • “It was in the public interest to retain the CAP water allocation of 6,561 acre-
10 feet.” See ACC Decision No. 62293, p. 5.
- 11 • “The Interim Solution which recommended that the Sun Cities recharge its CAP
12 allotment at the existing Maricopa Water District (“MWD”) recharge facility
13 meets criteria of “used and useful.” Id.
- 14 • “The ratepayers would pay for the deferred CAP charges.” Id.
- 15 • “The ratepayers would pay for the ongoing CAP costs.” Id.
- 16 • “The long-term solution is to deliver CAP water to the Sun Cities through a non-
17 potable pipeline where the water would be used to irrigate golf courses that have
18 historically used groundwater.” Id.

19 In Decision No. 62293, the Commission reiterated that “the decision of Citizens
20 to obtain allocations of CAP water was a prudent planning decision.” Id. at p. 18. The
21 Commission then determined that use of CAP water in the Sun Cities was necessary to prevent
22 “groundwater depletion of the aquifer, land subsidence and other environmental damage.” Id.
at p. 18. To top it all off, the Commission found that the “Groundwater Savings Project will
provide direct benefits to the Sun City areas.” Id. at p. 19.

The Commission also determined that Citizens met and fulfilled its obligations
under Decision No. 60172:

- 1 • “The proposed short-term solution satisfies the requirement in Decision No.
2 60172 that CAP water must be put to beneficial use prior to recovery from
ratepayers.” Id. at p. 6.
- 3 • “The requirements of Decision No. 60172 have been satisfied and rate recovery
4 should be approved for the previously approved deferred CAP costs as well as the
on-going capital and delivery costs.” Id. at pp. 19-20.

5 Finally, in Decision No. 62293, the Commission approved the Groundwater Savings Project
6 recommended by the CAP Task Force:

7 “While there are clearly less costly options...we will approve the concept of the
Groundwater Savings Project and approve the reasonable and prudent costs associated
8 with the completion of the preliminary design/update cost estimate.” Id. at p. 16.

9 For the reasons of law noted above on pages 2-3, SCTA and RUCO can’t collaterally attack
10 Decision No. 62293 or any of those findings in this docket.

11 **II. ISSUES TO BE DECIDED BY THE COMMISSION AT THIS JUNCTURE.**

12 SCTA and RUCO attempt to debate, reopen and collaterally attack numerous
13 issues definitively decided by the Commission in Decision Nos. 60172 and 62293. Most
14 notably, SCTA attempts to reargue whether the CAP allocation should be retained or
15 relinquished and whether deferred and ongoing costs associated with the allocation should be
16 recovered from customers. Both RUCO and SCTA attempt to challenge the Commission’s
17 decision to approve the concept of the Groundwater Savings Project recommended by the CAP
18 Task Force. As a matter of law, the Commission must ignore any and all such arguments
19 because the ACC already conclusively decided those issues and specifically (1) found Citizens’
20 decision to obtain the CAP allocation prudent, (2) approved the recovery of all deferred and
ongoing charges associated with the CAP allocation, and (3) approved the Groundwater Savings
Project recommended by the CAP Task Force. See Decision Nos. 60172 and 62293.

21 Under Decision No. 62293, only two issues remain for consideration by the
22

1 Commission: (1) did Citizens conduct a preliminary engineering analysis and updated cost
2 estimate to determine if the major components of the GSP are required; and (2) did Citizens
3 obtain binding agreements from the golf courses. The Commission should ignore any comments
4 by SCTA and RUCO which go beyond the scope of these issues because they have already been
5 decided under Decisions No. 60172 and 62293.

6 Citizens filed its Preliminary Engineering Report on August 1, 2000. Citizens
7 filed the Binding Agreements with each Recreation Center on October 31, 2000. Citizens is
8 filing the Binding Agreement with Briarwood Country Club today. In turn, the sole focus of this
9 docket is whether those filings are reasonable and sufficient for final approval and
10 implementation of the Groundwater Savings Project concept already approved by the
11 Commission. The answer to that question is YES and the comments of the parties do not warrant
12 disapproval of the plan.

13 Under Decision No. 62293, an evidentiary hearing is not necessary and the
14 Hearing Officer should submit a recommended opinion and order to the Commission approving
15 Citizens' Preliminary Engineering Report and Binding Agreements with the golf courses, and
16 approving Citizens' CAP water usage plan for implementation as soon as possible.

17 **III. COMMISSION STAFF HAS SUPPORTED CITIZENS' CAP WATER**
18 **USAGE PLAN.**

19 With respect to the Preliminary Engineering Report, Commission Staff concluded
20 that "the Preliminary Engineering Report and its recommended plan for the Groundwater
21 Savings Project and the associated costs are reasonable." See Staff Report, p. 3. Part and parcel
22 of that determination is that Citizens' proposed CAP water usage plan is the best and most cost
effective alternative.

In its comments, Commission Staff refused to endorse Citizens' Binding

1 Agreements for two reasons. See Staff's Comments on Binding Agreements, pp. 1-2. First,
2 Commission Staff claimed that Citizens did not provide the necessary documentation in support
3 of the Binding Agreements. Staff noted that Citizens didn't file an exhibit A (Locations of Use
4 and Points of Delivery) and B (Operating Agreements) to the Binding Agreements. These issues
5 are addressed below on pages 10-11 and do not warrant disapproval of the Binding Agreements.

6 Second, Commission Staff failed to endorse the Binding Agreements because
7 Citizens did not submit commitments from the private golf courses (Briarwood and Hillcrest).
8 But, Citizens has obtained sufficient commitments from the private golf courses. To start,
9 Citizens has obtained a binding commitment from six of the seven participating golf courses in
10 Sun City West. The commitment with Briarwood was obtained on December 14, 2000 and is
11 being filed at the same time as this response. That filing is attached as exhibit A. Clearly,
12 Citizens has demonstrated its ability to obtain binding commitments necessary for the GSP.
13 Negotiations with Hillcrest, the final private golf course, are on-going and are expected to be
14 favorably concluded.

15 Further, while the Preliminary Engineering Report concludes that the private golf
16 courses are necessary and play an important role in the project, the detailed data presented later
17 in the report fails to fully support this conclusion. Therefore, in response to concerns raised by
18 SCTA and Staff, Citizens requested that its engineers revisit this issue and determine definitively
19 if Hillcrest is necessary for the project. On that issue, the engineers concluded that Hillcrest will
20 add overall flexibility to the system, but it is not necessary for operation of the project. See
21 Citizens Supplemental Engineering Report, pp. 2-3 (exhibit B). In reality, therefore, Citizens has
22 obtained sufficient golf course commitments for the GSP.

1 **IV. RESPONSE TO SCTA'S COMMENTS.**

2 **A. SCTA's Comments On Recreation Center Agreements.**

3 In its comments on the Recreation Center Agreements, SCTA leaves no stone
4 unturned in its attempt to unravel prior Commission decisions and the CAP Task Force's
5 Groundwater Savings Project. SCTA provides no valid reason for rejecting the CAP Task
6 Force's GSP. The Commission should reject SCTA's eight purported reasons to disapprove the
7 plan:

- 8 • To start, SCTA claims Citizens fundamentally changed the project by using an
9 exchange mechanism instead of a groundwater savings facility mechanism to
10 effect the CAP Task Force's Groundwater Savings Project. See SCTA's
11 Comments on Recreation Center Agreements, pp. 1-3.
- 12 • SCTA also argues that Citizens' filings are incomplete because Appendices A and
13 B were not forwarded to the Commission. Id. at pp. 3-4.
- 14 • SCTA claims the agreements are "illusory" because they allow unilateral
15 termination and don't require the Recreation Center golf courses to take and pay
16 for CAP water exchanged in the project. Id. at pp. 4-5.
- 17 • SCTA contends the exchange charge is an unreasonable subsidy. Id. at pp. 5-6.
- 18 • SCTA objects because Citizens hasn't obtained binding commitments from the
19 private golf courses in Sun City West and the project isn't feasible without them.
20 Id. at p. 7.
- 21 • SCTA also urges rejection of the plan because Citizens hasn't provided estimates
22 for the costs associated with maintaining the Sun City West distribution system.
 Id. at pp. 7-8.
- SCTA further argues that the Binding Agreements aren't properly authorized by
 the Recreation Centers. Id. at pp. 8-10.
- Finally, SCTA claims the agreements violate an existing tariff established in
 Decision No. 60172 and necessitate a "full rate case." Id. at p. 10.

As set forth below, SCTA's comments and arguments on these issues are legally flawed and not supported by the factual record.

1 1. **Citizens didn't fundamentally change the project.**

2 On pages 1-3 of its comments, SCTA argues that Citizens fundamentally changed
3 the nature of the project by substituting an exchange for a groundwater savings facility permit.
4 SCTA is wrong. The CAP Task Force proposed an "exchange" as the focal point of the plan
5 concept already approved by the Commission. In its final report, the CAP Task Force described
6 the two projects it ultimately recommended as "Groundwater Savings Project/Exchange with
7 Local Golf Courses" and "Groundwater Savings Project/Exchange with Maricopa Water
8 District." The CAP Task Force knew exactly what it was doing in proposing a water
9 "exchange."

10 Following Decision Nos. 60172 and 62293, Citizens need not justify use of a
11 water exchange because the ACC has already approved the concept. What's more, SCTA
12 incorrectly implies that an exchange is somehow different from a groundwater savings facility
13 permit. In reality, an exchange and a groundwater savings facility permit are different legal
14 mechanisms producing the same result--*6,561 acre-feet of groundwater will not be pumped in*
15 *the Sun Cities*. An "exchange" has been at the heart of the Groundwater Savings Project from
16 the start and the ACC approved the CAP Task Force's exchange concept in Decision No. 62293.
17 See Decision No. 62293, pp. 10-14.

18 SCTA also collaterally challenges the "exchange" concept on other grounds. In
19 particular, SCTA argues that an exchange "does not require a reduction or elimination of
20 groundwater use." See SCTA's Comments, p. 2. But SCTA misses the point. Today, Citizens
21 and both Recreation Centers are meeting 100% of their demands with groundwater. After the
22 exchange, 6,561 acre-feet of exchanged CAP water--instead of groundwater--will be used by the
Recreation Centers to meet irrigation needs. Put another way, 6,561 acre-feet of groundwater

1 will be saved (along with avoiding a variety of environmental problems).

2 Faced with that undisputed point, SCTA turns to an argument that "it is
3 impossible to accrue long-term storage credits" with an exchange. But that's true both for an
4 "exchange" and a groundwater savings facility permit. Long-term storage credits can't be
5 accrued for this project in any case because the water will be stored and recovered in the same
6 calendar year. See Hearing Transcript, Volume I, pp. 102-106. Even if storage credits could be
7 accrued, the Commission restricted their use on this project: "...use of CAP water is conditional
8 upon any 'water credits' not being utilized in a manner that would result in additional
9 groundwater depletion to the Sun Cities area." See Decision No. 52293, p. 20. SCTA's "storage
10 credit" arguments have no bearing on approval of the CAP water plan.

11 Finally, SCTA implies that by using an exchange instead of a groundwater
12 savings facility mechanism, CAP water will count against Citizens' water conservation
13 requirements. Again, under either mechanism, CAP water will be counted against Citizens'
14 conservation requirements. See Hearing Transcript, Vol. I, pp. 113-117; Vol. II, pp. 308-314.

15 Ultimately, the factual record, engineering reports and CAP Task Force findings
16 establish that an "exchange" is the best and most cost effective way to use CAP water in the
17 public interest. SCTA cites no evidence to the contrary in its comments.

18 **2. Citizens' filings were complete and satisfy Decision No. 62293.**

19 Unfortunately, Citizens inadvertently omitted Exhibit A to the Binding
20 Agreements from its original filing. That led SCTA to claim the filings were "incomplete." But
21 that omission is no reason to reject the project. Citizens provided copies of Exhibit A once it
22 discovered the mistake. See Citizens' Responses to Data Requests dated November 13, 2000
(exhibit C). Commission counsel received a copy of exhibit A on November 13, 2000 and

1 withdrew Staff's objection on that issue. As contemplated in the Binding Agreements, Citizens
2 and the Recreation Centers continue to negotiate the Operating Agreements and fully expect to
3 complete them in a timely manner. As the name implies, the Operating Agreements deal
4 exclusively with operational details (i.e., maintenance procedures, access rights and delivery
5 schedules). They simply don't bear on the issues presented here.

6 SCTA also confuses necessary pre-conditions to the Agreements with "unilateral
7 termination rights" by claiming the agreements are not binding because they include pre-
8 conditions that can result in termination. That argument fails on several points. Those pre-
9 conditions reflect significant regulatory approvals and other milestones that must be reached in
10 the normal course of authorizing and permitting this project--such as Commission approval of
11 the Preliminary Engineering Report. SCTA argues that these approvals and permits should have
12 been obtained in advance of executing the Binding Agreements. But that simply wasn't possible
13 or practical in advance of securing golf course commitments.¹ Nor can the Recreation Centers
14 simply walk away from the contracts as SCTA claims. Rather, the Recreation Centers are bound
15 to exchange groundwater for CAP water. Whether or not certain pre-conditions occur doesn't
16 impact those binding CAP water commitments.

16 3. The Agreements are real and binding.

17 SCTA next contends the Binding Agreements are illusory because they do not
18 require the Recreation Centers to take or pay for CAP water annually. See SCTA Comments,
19 pp. 4-5. SCTA relies on § 9 of the Agreements to prove its point, but § 9 was not intended to
20 address the commitment of the Recreation Centers to utilize and accept CAP water. Instead, § 9
21 focuses on ordering and delivering the CAP water from an operational perspective and on the

22 ¹ For example, the Arizona Department of Water Resources can't approve an exchange permit until
after an exchange agreement has been executed.

1 protection of the water sources of each party.

2 In terms of binding commitments, the Agreements mean exactly what they say:

3 Water Company and Recreation Centers desire to enter into an agreement whereby Water
4 Company provides CAP water to Recreation Centers for irrigation of golf courses in
5 exchange for the use of groundwater, and Recreation Centers provides groundwater to
6 Water Company for potable deliveries in exchange for the use of CAP water. See Sun
7 City West Agreement, § I, ¶ I.

8 Recreation Centers acknowledges that in order to effectuate this Agreement, Water
9 Company or an affiliated entity will construct the Pipeline to deliver CAP water to
10 Recreation Centers' golf courses in reliance on Recreation Centers' commitment to use
11 CAP water pursuant to this Agreement. Id. at ¶ J.

12 Water Company will meter and deliver to Recreation Centers CAP water for use on its
13 golf courses in the amounts determined pursuant to Paragraph 9 of this
14 Agreement...Recreation Centers agrees to accept delivery of the amount of water ordered
15 pursuant to paragraph 9 of this Agreement and to use the water in accordance with the
16 terms of this Agreement. Id. at § 7.

17 The Recreation Centers' commitments to take and pay for CAP water are real and binding.

18 **4. The exchange charge is not a subsidy.**

19 On pages 5-6 of its comments, SCTA restates its argument that the project isn't in
20 the public interest by characterizing the project as a subsidy of Recreation Center golf courses.
21 SCTA asserts that the Recreation Centers should pay 100% of the costs to construct and operate
22 the project instead of the exchange charge.² That simplistic argument ignores the purpose of the
plan--to provide a direct means of saving groundwater in the Sun Cities without incurring the
cost of constructing and operating a water treatment plant. If the golf courses bore 100% of the
project costs or had to take and pay for CAP water irrespective of whether it can be used, they
would never agree to the exchange. Instead, they would keep pumping groundwater and the

² Under § 10 of the Agreements, the "exchange charge" will be "an amount equal to 80% of Recreation Centers' average per acre foot cost of purchased power for pumping groundwater..."

1 revenue stream from the Recreation Centers would be zero. That would necessitate construction
2 of a water treatment plant for delivery of CAP water and dramatically increase costs. SCTA has
3 no basis for contesting the exchange charge or the Binding Agreements on these issues.

4 On page 6 of its comments, SCTA again complains that ratepayers will receive no
5 direct benefits from this scheme. But that issue has been decided by the Commission. See
6 Decision No. 62293, p. 19. SCTA even acknowledged that "the use of CAP water on existing
7 golf courses in the Sun City communities is the only alternative that presents a potential for
8 providing measurable benefits to equal the costs to ratepayers." Id. at p. 13. Exactly.

9 **5. Sufficient private golf course commitments have been obtained.**

10 On page 7 of its comments, SCTA argues that the agreements are insufficient
11 because they don't include certain private golf courses in Sun City West (Hillcrest and
12 Briarwood). SCTA's argument is not well-taken for the reasons discussed above on pages 6-7.

13 **6. Maintenance costs for the Sun City West distribution system are immaterial.**

14 Next, SCTA complains that the Preliminary Engineering Report neglected to
15 include the costs associated with operating and maintaining the Sun City West distribution
16 system as described in the Binding Agreements. Citizens omitted those costs because the
17 Recreation Centers of Sun City West did not request that Citizens maintain the effluent
18 distribution system until after the Preliminary Engineering Report was submitted to the
19 Commission. In response, Citizens' engineers analyzed the issue and prepared a cost estimate.
20 According to the engineers, the estimated cost to maintain the effluent distribution system is
21 \$24,695 per year. Those costs are not material to the project.

22 **7. The Binding Agreements were authorized properly.**

SCTA further claims that the agreements may not be authorized properly by the
Recreation Centers. That claim is baseless. Both agreements are duly signed by the presidents

1 of the Recreation Centers. SCTA's claim that the Recreation Centers of Sun City are conveying
2 their water rights and assuming debt in excess of \$750,000 is fictitious. The exchange
3 agreements specifically protect the source water of each party. The Recreation Centers aren't
4 assuming any debt as a result of this project. There simply is no reason to believe the
5 agreements were not authorized properly.

6 **8. A rate case is not necessary or warranted in this docket.**

7 SCTA makes a last ditch effort to undo the project by claiming a full rate
8 proceeding is warranted. That argument fails for many reasons. To start, the Recreation
9 Centers are not customers of Citizens. Instead, they are self-serving water providers with
10 independent water rights. Citizens isn't delivering CAP water directly to the golf courses as
11 customers of Citizens. Citizens will exchange its CAP water for the groundwater used by the
12 Recreation Centers. Each party will maintain the legal character of the water exchanged in the
13 project. Citizens' customers will use CAP water and the Recreation Centers will use
14 groundwater. See, e.g., Agreement for Exchange of CAP Water in Sun City West, pp. 3-4. The
15 exchange charge assessed by Citizens is for the purposes of effecting the exchange. Nothing
16 more, nothing less. The tariff established in Decision No. 60172 has no applicability to this
17 exchange and Scates v. Arizona Corporation Comm'n, 118 Ariz. 531, 578 P.2d 612 (App. 1978)
has no bearing on the facts of this matter.

18 **B. SCTA's Comments on Engineering Report.**

19 In its engineering comments, SCTA again reargues several issues already decided
20 by the Commission. A few examples demonstrate that fact:

- 21 • Because Binding Agreements are not in place, Citizens should be required to pay
the costs of Preliminary Engineering Report. See SCTA Comments to Citizens'
Engineering Report, pp. 2-3.
- 22 • The Groundwater Savings Project causes a 63.8% increase in revenues and

1 provides no comparable direct benefit to customers. Id. at p.4.

- 2 • The plan should be put to a vote of the people. Id. at p. 12.

3 Most of SCTA's engineering comments revolve around issues surrounding public benefits of the
4 project. SCTA's arguments on those issues should be ignored as an improper collateral attack on
5 prior ACC decisions. Further, those arguments don't relate to the engineering issues.

6 The Commission also should disregard SCTA's revenue requirement arguments
7 on pages 4-6 of the comments. SCTA argues that the plan "is too costly and will impose
8 unreasonable burdens on ratepayers." Id. at p. 4. But, in Decision No. 62293, the Commission
9 expressly authorized Citizens' recovery of the costs associated with the preparation of the
10 Preliminary Engineering Plan: "...we will approve the concept of the Groundwater Savings
11 Project and the reasonable and prudent costs associated with the completion of the preliminary
12 design/updated cost estimate." See Decision No. 62293, p. 16. And SCTA's revenue analysis is
13 flat wrong. SCTA considers the income tax increase resulting from the exchange revenue but
14 ignores the income tax reductions resulting from 1) the downward rate adjustment, 2) the
15 additional CAP and GSP expenses, and 3) the interest deduction resulting from expected debt
16 financing of the Groundwater Savings Project. Further, SCTA inappropriately includes deferred
17 CAP charges. That means SCTA grossly overstated the required revenue increase by 71% for
18 Sun City and 87% for Sun City West. A correct analysis of the required revenue increase is
19 attached as exhibit D.

20 In terms of the engineering issues, SCTA makes four basic arguments:

- 21 • The plan does not maximize the use of Sun City West's effluent distribution
22 system. See SCTA Engineering Comments, pp. 5-7.
- Citizens failed to consider adequately a joint project with Citizens' Agua Fria
Division. Id. at pp. 8-10.
- Citizens failed to consider phasing to reduce costs. Id. at p. 11.

1 • The Plan does not consider potable deliveries as a long term solution. Id. at p. 12.
2 All of these arguments lack merit. SCTA provides no compelling reason to reject the
3 Preliminary Engineering Report.

4 1. **Maximization of Sun City West's effluent distribution system.**

5 SCTA argues that Citizens should deliver 100% of the CAP allocations for Sun
6 City, Sun City West and Youngtown to golf courses located in Sun City West. SCTA
7 approximates that only 300 to 1000 acre-feet of CAP water would be left after deliveries to Sun
8 City West. That leads SCTA to argue that construction of a new Sun City distribution system
9 isn't justified under those circumstances.

10 SCTA is wrong on several fronts. First, the Groundwater Savings Project concept
11 approved by the Commission hinges on delivery of 4,189 acre-feet of CAP water to the golf
12 courses in Sun City. The CAP Task Force recommended delivery of CAP water to each
13 community to realize immediate, direct benefits. Delivery of CAP water to Sun City already has
14 been approved by the Commission and is necessary to reap the full public benefits of the project.

15 Second, two of the Sun City West golf courses (Deer Valley and Desert Trails)
16 are not eligible for participation in the project. See Rebuttal Testimony of Blaine Akine, pp. 4-5,
17 Rejoinder Testimony of Terri Sue C. Rossi, pp. 9-10 and Response to RUCO Data Request No.
18 2.7. SCTA's argument hinges on participation of all nine Sun City West golf courses. But
19 Citizens can't utilize an exchange with Deer Valley and Desert Trails because an exchange
20 requires a water for water transfer (under A.R.S. § 45-1001.6) and not a water for credit transfer.
21 Likewise, Citizens can't effect a groundwater savings facility permit with those courses because
22 that requires the recipient to be a groundwater user. Citizens justifiably excluded those golf
courses because they rely on effluent long-term storage credits and not groundwater.

1 Third, Citizens' Preliminary Engineering Report documents physical limitations
2 that prevent Citizens from delivering Sun City's CAP allocation to Sun City West. Put simply,
3 the existing Sun City West effluent distribution system is not connected to the expansion courses
4 (Deer Valley and Desert Trails).

5 Fourth, the Sun City West system has a practical hydraulic limit of 5.5 cubic feet
6 per second which converts to 10.91 acre-feet per day. See Preliminary Engineering Report, p. D-
7 50. That means the system can't exceed approximately 3,900 acre-feet of demand over the entire
8 year. As documented in the Preliminary Engineering Report, the majority of irrigation demands
9 must be met during the summer months. Given the demand schedules of the golf courses
10 (including the private courses), there is only approximately 540 acre-feet of capacity available in
11 Sun City West's effluent distribution system assuming no variations for weather and operational
12 reasons. *Put another way, nearly 3,700 acre-feet of Sun City's CAP allocation would go unused.*

13 Finally, the Recreation Centers of Sun City West will not permit the use of its
14 facilities to deliver Sun City's CAP allocation to golf courses in Sun City West. Id. at p. D-19
15 and Appendix C.

16 **2. Citizens adequately considered possible joint projects.**

17 Citizens did consider a joint project with the Agua Fria Division and City of
18 Surprise. SCTA's arguments to the contrary are invalid. The Preliminary Engineering Report
19 devotes an entire section (Part C) to exploring alternative joint projects. On pages C-1 through
20 C-6 of the report, the engineers considered three possible joint projects: a joint project with
21 Citizens' Agua Fria Division; (2) a joint project with the City of Surprise; and (3) a joint project
22 with both the City of Surprise and Citizens' Agua Fria Division. The timelines for construction
of those joint projects don't coincide with the construction timeline for the Groundwater Savings

1 Project. See Preliminary Engineering Report, p. C-6. Plus, the cost of each joint project
2 substantially exceeds the cost of the GSP. Id. at pp. E-3, E-4.³

3 SCTA also takes issue with Citizens' analysis of Alternative E (i.e., moving CAP
4 water through the Sun City West effluent distribution system from west to east) and Citizens'
5 alleged failure to consider other possible joint projects. But, as clearly indicated on page D-19 of
6 the Preliminary Engineering Report, the Sun City West effluent distribution system is
7 hydraulically incapable of conveying Sun City's CAP allocation across Sun City West. SCTA
8 has provided no contrary engineering evidence. SCTA also contends that Citizens should have
9 considered a joint water treatment plant under Decision No. 62293. See SCTA's Engineering
10 Comments, p. 10. SCTA has interpreted the order too broadly. Decision No. 62293 doesn't
11 envision analysis of a joint treatment facility. This docket focuses on a Groundwater Savings
12 Project with local golf courses. That's what the CAP Task Force recommended and that's what
13 the Commission approved for use of CAP water in the Sun Cities.

14 All in all, Citizens analyzed eight separate alternatives to bring the CAP water to
15 the Sun Cities. *Citizens more than fulfilled its duties to compare the Groundwater Savings*
16 *Project against other possible joint facilities.* The bottom line is that the GSP recommended by
17 the CAP Task Force is the least expensive, most timely and best plan for utilizing CAP water in
18 the Sun Cities.

19 **3. Citizens adequately considered possible phasing of the project.**

20 Next, SCTA contends that Citizens failed to consider phasing (*i.e.* building

21 ³ For example, the estimated construction costs for the various proposals were as follows: Joint
22 Facility with Agua Fria (\$17,073,936); Joint Facility with City of Surprise (\$17,250,713); Joint Facility
with Agua Fria and Surprise (\$16,615,028); and, the GSP (\$15,036,691). See Citizens Preliminary
Engineering Report, p. E-3. The operation and maintenance costs favor the GSP even more: Agua Fria
(\$2,564,428); Surprise (\$2,569,828); Agua Fria/ Surprise (\$2,535,414) and GSP (\$1,424,238). Id.

1 portions of a project spread out over time) as part of the project. Specifically, SCTA argues that
2 Citizens should phase the project by using the Beardsley Canal to convey CAP water to the Sun
3 Cities. Citizens evaluated possible phasing but rejected it for several reasons.

4 To start, phasing makes sense when supply exceeds demand and the proposed
5 project can't be used fully. Phasing also makes sense when the initial costs of the project dwarf
6 the benefits to be gained at the start of the project. Here, neither condition exists and, thus,
7 phasing is not appropriate. As demonstrated in the chart on page B-16 of the Preliminary
8 Engineering Report, water demand on the golf courses covers 100% of the CAP water allocated
9 to the Sun Cities. Demand exceeds supply and the project will be used to full capacity. There is
10 no reason to phase the project.

11 Phasing the project also is more expensive than the Groundwater Savings Project.
12 As indicated on page E-4 of the Preliminary Engineering Report, use of the Beardsley Canal as
13 the initial phase of the project will do nothing more than increase costs for conveyance losses
14 and wheeling. Those increased costs range from \$2,942,927 to \$3,376,883. In short, there is no
15 financial benefit to "phasing" the project as SCTA suggests. Alternatives B, C and D all
16 consider use of the Beardsley canal and their total projected costs exceed the costs of the
17 Groundwater Savings Project recommended by the CAP Task Force: Alternative B
18 (\$17,278,912), C (\$17,949,879), D (\$20,571,684) and Task Force's Groundwater Savings
19 Project (\$16,460,928). Id. at p. E-4.

20 4. Conversion to a potable water system.

21 Last, SCTA asserts that the proposed Sun City distribution system won't be
22 convertible to a potable water system in the future. That's simply not true. In reality, the system
can be converted easily to a potable water system. Under that scenario, the Lake Pleasant Road

1 main pipeline would be used as a raw water pipeline for delivering the entire CAP allocation to a
2 water treatment plant likely sited on the Sun City West Water Campus.

3 From there, the finished water would be conveyed to existing Sun City Water
4 Company storage and booster facilities using the same distribution pipe network constructed for
5 the Groundwater Savings Project. Citizens also specifically reserved the right to convert the
6 supply for potable purposes in the future (if necessary). See Agreement for Exchange of CAP
7 Water in Sun City, p. 6.

8 V. RESPONSE TO RUCO COMMENTS.

9 RUCO has filed comments only on the Preliminary Engineering Report. See
10 RUCO Comments dated November 1, 2000. RUCO objects to the GSP for three reasons--(1)
11 potential rate shock to customers from a \$15 million capital outlay, (2) Citizens' pending sale to
12 American Water Works and (3) the Agua Fria Division's pending application to recover deferred
13 CAP charges through a hook-up fee. In making these arguments, RUCO's principal claim is that
14 the "CAP usage plan is not in the public interest at this time." Id. at p. 4.

15 Again, the Commission already has decided that the Groundwater Savings Project
16 serves the public interest. RUCO's objections to the plan already have been considered and the
17 Commission should not reconsider prior "public interest" findings. Nor does Citizens' pending
18 sale to American Water Works or the pending Agua Fria Division's hook-up fee have any
19 bearing on the sufficiency of the Groundwater Savings Project.

20 VI. CONCLUSION.

21 SCTA and RUCO continually characterize the Groundwater Savings Project as a
22 "golf course irrigation" project. But that characterization couldn't be farther from the truth. The
Groundwater Savings Project is truly a public interest project, and it serves two fundamental

1 purposes. First, it avoids the substantial costs and capital outlays to build a water treatment plant
2 for use of CAP water in the Sun Cities. The Groundwater Savings Project is the best and most
3 cost effective plan for utilizing CAP water in the Sun Cities. Second, the Groundwater Savings
4 Project will serve the public interest, prevent excessive groundwater pumping and avoid
5 permanent damages to the Sun Cities' water resources. It provides direct and immediate benefits
6 to the Sun Cities.

7 For the reasons noted above, the Hearing Officer should issue a recommended
8 opinion and order to the Commission approving the sufficiency of Citizens' Preliminary
9 Engineering Report and Binding Agreements with the golf courses, and approving Citizens'
10 CAP water usage plan for implementation as soon as possible.

11 DATED this 18 day of December, 2000.

12 GALLAGHER & KENNEDY, P.A.

13 By

14 Michael M. Grant

15 Todd C. Wiley

16 2575 East Camelback Road

17 Phoenix, Arizona 85016-9225

18 Attorneys for Citizens Communications
19 Company

20 **Original** and ten copies filed this
21 December, 18, 2000, with:

22 Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

GALLAGHER & KENNEDY, P.A.
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(602) 530-8000

1 **Copies** of the foregoing mailed
this December 18, 2000, to:

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3 RUCO
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7 Phoenix, Arizona 85004

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Attorneys for Recreation Centers of Sun City
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3099-0043/889333

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE JOINT APPLICATION
OF SUN CITY WATER COMPANY AND SUN
CITY WEST UTILITIES COMPANY FOR
APPROVAL OF CENTRAL ARIZONA PROJECT
WATER UTILIZATION PLAN AND FOR AN
ACCOUNTING ORDER AUTHORIZING A
GROUNDWATER SAVINGS FEE AND
RECOVERY OF DEFERRED CENTRAL ARIZONA
PROJECT EXPENSES.

Docket Nos.: W-01656A-98-0577
SW-02334A-98-0577

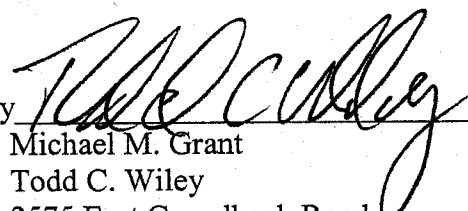
**SUN CITY WATER COMPANY'S
AND SUN CITY WEST
UTILITIES COMPANY'S
SUPPLEMENTAL FILING OF
BINDING AGREEMENT**

Sun City Water Company and Sun West Utilities Company (the "Companies")
hereby file an executed Agreement for Exchange of Central Arizona Project Water on Golf
Course between Sun City West Utilities Company and Briarwood Country Club dated
December 14, 2000 (exhibit A).

DATED this 18 day of December, 2000.

GALLAGHER & KENNEDY, P.A.

By



Michael M. Grant
Todd C. Wiley
2575 East Camelback Road
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Attorneys for Citizens Communications
Company

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1 **Original** and ten copies filed this
December, 18, 2000, with:

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3 Arizona Corporation Commission
1200 West Washington
4 Phoenix, Arizona 85007

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20
21 By: Linda Magner
3099-0043/890442

**AGREEMENT FOR EXCHANGE OF CENTRAL ARIZONA
PROJECT WATER ON GOLF COURSE**

This Agreement for Exchange of Central Arizona Project Water on Golf Course ("Agreement") is made this 14th day of December, 2000 by SUN CITY WEST UTILITIES COMPANY ("Water Company"), an Arizona corporation, and BRIARWOOD COUNTRY CLUB ("Briarwood"), an Arizona non-profit corporation ("the Parties").

I. RECITALS

A. In February of 1998, eight community organizations in Sun City, Sun City West and Youngtown established the CAP Task Force to determine if the 6,561 acre foot allocation of Central Arizona Project ("CAP") water intended for use in Sun City, Sun City West and Youngtown ("the Sun Cities") should be retained, and if so, how the water should be used and paid for.

B. Over a fourteen-week period, the CAP Task Force studied issues such as groundwater declines, the availability of alternative water supplies and the impact of relinquishing the CAP allocations.

C. After studying the options for use of CAP water, the CAP Task Force recommended that CAP water be retained and used through an arrangement with local golf courses. CAP water would be delivered to Sun City and Sun City West through a nonpotable pipeline ("the Pipeline") and used to irrigate golf courses that have historically pumped groundwater. The CAP Task Force submitted its final report by resolution on May 19, 1998.

D. Water Company entered into a contract entitled "Subcontract Among the United States, the Central Arizona Water Conservation District and the Sun City West Utilities Company Providing for Water Service, Central Arizona Project," Contract No. 00XX300002,

dated October 26, 1999 ("the CAP Subcontract"), entitling it to 2,372 acre feet of CAP water use in its service area.

E. This Agreement is intended to (1) provide CAP water to golf courses to replace their use of groundwater thereby preserving groundwater supplies under Sun City West and benefiting the entire community; (2) allow Water Company to utilize its CAP water at substantially less cost than building a treatment plant thereby providing the most direct benefit to rate payers at the lowest possible cost; and (3) legally convert a portion of Water Company's groundwater pumping into surface water through a water exchange thereby significantly reducing the community's historic reliance on groundwater in the exchange.

F. The Parties to this Agreement intend to implement the project through a water exchange. Water Company will give CAP water and Briarwood will give groundwater in the exchange.

G. Water Company is an Arizona public service corporation within the meaning of Article 15, § 2 of the Arizona Constitution and is authorized to provide water service within portions of Maricopa County, Arizona ("the Certificated Area") pursuant to a certificate of convenience and necessity granted by order of the Arizona Corporation Commission ("ACC") and is authorized to withdraw groundwater pursuant to its water service area right (56-002038.0000) established under A.R.S. Title 45, Article 6.

H. Briarwood withdraws groundwater pursuant to certain non-irrigation grandfathered rights and other withdrawal authorities.

I. Water Company and Briarwood desire to enter into an agreement whereby Water Company provides CAP water to Briarwood for irrigation of golf courses in exchange for the use

of groundwater, and Briarwood provides groundwater to Water Company for potable deliveries in exchange for the use of CAP water.

J. Briarwood acknowledges that in order to effectuate this Agreement, Water Company or an affiliated entity will construct the Pipeline to deliver CAP water to Briarwood's golf courses in reliance on Briarwood's commitment to use CAP water pursuant to this Agreement.

NOW, THEREFORE, in consideration of covenants and agreements contained herein, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

II. CAP EXCHANGE AGREEMENT

1. Exchange. Water Company and Briarwood hereby agree to a legal arrangement under Arizona law (A.R.S. §45-1001) called an "exchange." Pursuant to Arizona law, Water Company will annually "give" to Briarwood up to 818 acre feet of Water Company's CAP water, and Briarwood will "give" Water Company an equal amount of Briarwood's groundwater. In reality, Briarwood will use CAP water delivered to it and refrain from pumping groundwater in the amount of CAP water used. In reality, Water Company will continue to pump groundwater from its wells in the same amount as it historically pumped, but it will be able to account for the groundwater as if it was CAP water up to the amount of CAP water delivered to Briarwood. The net result will be a reduction in total groundwater pumping as a result of the use of CAP water on Briarwood golf courses. Pursuant to Arizona exchange law, Water Company must account for the groundwater it "receives" in the exchange as CAP water and Briarwood must account for the CAP water it "receives" in the exchange as groundwater. Each party may use the water it receives only in the manner in which it may legally use the water it gives in the exchange. Therefore, the same acreage and water use restrictions that applied to Briarwood before the exchange will continue to apply after the exchange.

2. Exchange Period. The exchange period is the calendar year.
3. CAP Water Rights. Water Company will exchange up to 818 acre-feet of CAP water pursuant to its Municipal and Industrial CAP Subcontract No. 00XX300002.
4. Groundwater Rights. Briarwood will exchange groundwater pursuant to the following water rights:

Type 1 Grandfathered Rights

58-117269.0002 484.85 acre feet

Groundwater Industrial Use Permits

59-511010.0000 333 acre feet

For purposes of satisfying the Arizona Department of Water Resource's requirements for exchanging Type 1 rights, and for purposes of this exchange only, the parties hereby recite that Briarwood has the theoretical right to withdraw groundwater at the locations where Water Company will withdraw the exchanged groundwater. This does not allow Briarwood to use, have any rights to or in any way interfere with Water Company's use of Water Company's wells.

5. Term of Agreement. The initial term of this Agreement runs from the Effective Date through December 31, 2043, which is the date of expiration of the CAP Subcontract. If the CAP Subcontract term is extended or renewed, this Agreement, if still in effect, will automatically renew for a period equal to the new term of the CAP Subcontract (together referred to herein as "Term").

6. Termination of Agreement.

6.1 Either party may terminate this Agreement if any of the following pre-conditions has not occurred.

- a. The Operating Agreement referenced in section 9 of this Agreement has been executed by both parties no later than December 31, 2000.
- b. Arizona Department of Water Resources ("ADWR") has issued all permits or approvals necessary to implement an exchange to enable the use of CAP water on Briarwood's golf courses no later than March 31, 2001.
- c. Briarwood has applied for and obtained sufficient authority to withdraw groundwater to achieve the purpose of this Agreement for the Term of this Agreement no later than December 31, 2000.
- d. The preliminary design/cost study ordered by the ACC in Decision and Order No. 62293 has been approved by the ACC.

6.2 Except as provided in section 6.1, Briarwood may terminate this Agreement only in the event of a material breach of this Agreement by Water Company.

6.3 Water Company may terminate this Agreement for the following reasons:

- a. A material breach by Briarwood, including if Briarwood remains in arrears in the payment of amounts due under Paragraph 10 of this Exchange for more than 60 days, which termination will be effective 15 days after mailing written notice of termination to Briarwood.
- b. If Water Company cannot legally continue to deliver CAP water to Briarwood golf courses, after having made a good faith effort to maintain and/or obtain the necessary legal authority.
- c. If Briarwood cannot legally continue to exchange groundwater with Water Company, after having made a good faith effort to maintain and/or obtain the necessary legal authority.
- d. If it becomes necessary for Water Company to use the CAP Subcontract water for potable deliveries to the residents of Sun City West. Before Water Company may terminate this Exchange

for this purpose, Water Company must give Briarwood at least two years notice.

6.4 If this Agreement is terminated before Water Company has recovered its investment in the Pipeline and the Pipeline is no longer being used to benefit Sun City West water ratepayers, at the first succeeding rate proceeding the ACC would determine whether Water Company could continue to reflect its investment in the Pipeline in water rates.

7. Delivery and Acceptance of CAP Water. Water Company will meter and deliver to Briarwood CAP water for use on its golf courses in the amounts determined pursuant to Paragraph 9 of this Agreement. Water Company will deliver the water at the location shown in Exhibit A to this Agreement ("Point of Delivery"). In no event is Water Company obligated to deliver more than 818 acre feet of CAP water in any one year. Briarwood agrees to accept delivery of the amount of water ordered pursuant to Paragraph 9 of this Agreement and to use the water in accordance with the terms of this Agreement. Water Company's obligation to deliver CAP water is subject to Water Company's ability to receive the CAP water from the Central Arizona Water Conservation District ("CAWCD"). This Agreement is subject to the terms and conditions of the CAP Subcontract and the Master Repayment Contract between the CAWCD and the United States, as amended.

8. Location of Use. The CAP water delivered to Briarwood pursuant to this Agreement may be used only at the locations where Briarwood has the legal authority to use groundwater pursuant to existing authorities to withdraw held by Briarwood or any additional authorities to withdraw that may be acquired in the future.

9. Ordering and Delivery of Water. Briarwood will order and Water Company will deliver the CAP water pursuant to the ordering and delivery procedure set forth in the Operating Agreement attached hereto as Exhibit B. The Operating Agreement may be amended from time

to time by written agreement of both parties without amending this Agreement. Water Company is not obligated to deliver water to Briarwood until such time as construction of the Pipeline is complete. Briarwood agrees to use its best efforts to use the amount of CAP water made available to it on its golf course each year, consistent with best golf course management practices and legal requirements. Nothing in this Agreement shall be construed to limit Briarwood's legal right to pump groundwater pursuant to its permits if Water Company is unable to deliver the amounts of CAP water anticipated by this Agreement.

10. Payment for Exchanged Water. Briarwood must pay Water Company a charge per acre foot of water received pursuant to this Agreement ("the Exchange Charge"). The Exchange Charge for the first five years of deliveries will be an amount equal to 80% of Briarwood's average per acre foot cost of purchased power for pumping groundwater during the calendar year prior to the first year Water Company delivers CAP water to Briarwood. This will be determined by Water Company in an audit of Briarwood's power records. Following the end of the fourth full calendar year of deliveries, Water Company will audit Briarwood's books and records pertaining to the power costs of pumping groundwater and determine what the Briarwood's average per acre foot power cost for pumping groundwater would have been in the fourth year had it been using 100% groundwater. The Exchange Charge in the sixth through tenth calendar years will be 80% of this per acre foot amount. Briarwood agrees to provide any relevant information requested by Water Company for the audit and cost determination. Water Company will perform such an audit and determination every five years and adjust the Exchange Charge accordingly. Water Company will bill Briarwood monthly and Briarwood must pay the Exchange Charge within 30 days of receipt of a bill. If Briarwood does not pay the charge

within 45 days of receipt of the bill, Briarwood must pay a late charge of 1.5% per month for each day the payment is delinquent beyond the due date.

11. Additional CAP Water. If Briarwood acquires additional CAP water after the effective date of this Agreement, Water Company will work with Briarwood to either 1) include the additional water in the exchange through an amendment to this Agreement or a separate agreement, or 2) enter into a new agreement for direct delivery of the CAP water to Briarwood.

12. Water Quality. Water Company will deliver water to Briarwood suitable for use for irrigating golf courses at the Point of Delivery. Briarwood is responsible for the quality of water after the Point of Delivery.

13. Water Exchange Notice and Reporting. Water Company will file a Notice of Water Exchange as required by A.R.S. § 45-1051. In addition, both Water Company and Briarwood will file annual reports on water exchanged pursuant to A.R.S. § 45-1004 and will exchange water in accordance with the exchange agreement and any other legal requirements applicable to the exchange. In no event will Briarwood use the CAP water in a manner in which it was not legally entitled to use the groundwater being exchanged.

14. Dispute Resolution.

14.1 Scope. This section governs the resolution of all disputes arising under this Agreement.

14.2 Good Faith Negotiations. The party that believes a dispute exists under this Agreement will first refer the dispute to the Representatives for resolution. The Representatives of each party will personally meet and attempt in good faith to resolve the dispute. If the Representatives cannot resolve the dispute within 14 days, the matter will be referred to senior management of Briarwood and Water Company for resolution. If these

persons are unable to resolve the dispute within 30 days thereafter, a party that still believes the dispute requires resolution may avail itself of the provisions of section 14.3.

14.3 Arbitration. If a party still believes a dispute requires resolution, after following the procedures of Paragraph 14.2, that party will first give a detailed written notice of dispute to the other parties setting forth the nature of the dispute. The Parties will then, upon request of any party, be submitted for and settled by binding arbitration administered by AAA before a single arbitrator. The arbitrator must have substantial experience with the water utility industry. The arbitrator has no power to amend or modify this Agreement. Judgment on the award rendered by the arbitrator must be entered in any court with jurisdiction.

14.4 Other Remedies. The preceding subparagraphs of this Paragraph 14 are intended to set forth the primary procedure to resolve all disputes under this Agreement. It is expected that all disputes that would traditionally be resolvable by a law court would be resolvable under this procedures. However, the Parties recognize certain business relationships could give rise to the need for one or more of the Parties to seek equitable remedies from a court that were traditionally available from an equity court, such as emergency, provisional or summary relief and injunctive relief. Immediately following the issuance of any such equitable relief, the Parties will stay any further judicial proceeding pending arbitration of all underlying claims between the Parties. The Parties also recognize that the ACC has primary jurisdiction over certain issues that may arise among and between the Parties that relate to the provision of public utility service. Accordingly, this Article is not intended to prohibit any party from bringing any such issues to the ACC for resolution or from taking any position at the ACC that would be inconsistent with or barred by this Agreement or by collateral estoppel, *res judicata* or other issues or fact-preclusive doctrines.

14.5 Appeal. Within 30 days after the date of the arbitration award, a party may appeal to the U.S. District Court for the District of Arizona, if such court has jurisdiction, and otherwise to any state court of record in Arizona having jurisdiction, to vacate and remand, or modify or correct the arbitration award for any of the grounds specified in the Federal Arbitration Act.

14.6 Confidentiality. The arbitration proceedings will be conducted in secrecy. Except as otherwise agreed by the Parties in writing, (a) the fact of the pending arbitration will not be disclosed or confirmed by the Parties or the arbitrator to any person who is not a party to, or called to testify at, the proceedings until the arbitration award has been made, (b) the proceedings will not be recorded or transcribed in any manner, and (c) all documents, testimony and records (other than the contract documents out of which the dispute arises) will be received, heard and maintained by the arbitrator in secrecy, available for inspection only by the Parties, their attorneys and by experts who must agree, in advance and in writing, to receive all such information in secrecy. The secret information will not be described in the arbitration award in such manner as to be commercially useful.

15. Indemnification. Water Company is not responsible for the control, carriage, handling, use, disposal or distribution of any water beyond the Point of Delivery. Each party (indemnitor) to this Agreement agrees to indemnify and hold harmless the other party (indemnatee) and its governing bodies, agents, directors, officers and employees for, from and against any loss, damage or liability, including reasonable attorney's fees, caused by a negligent or intentionally willful action or inaction on the part of the indemnitor and its governing bodies, agents, directors, officers and employees, including without limitation, claims for bodily injury,

illness, death or damage to property. Each party assumes liability for its own negligent or intentionally willful action or inaction arising out of the terms and conditions of this Agreement.

16. Uncontrollable Forces. Neither party will be considered to be in default in the performance of its obligations under this Agreement (other than obligations to make payments due hereunder) when a failure of performance is due to Uncontrollable Forces. The term "Uncontrollable Force" means any natural or artificial cause beyond the control of a party to this Agreement that renders the party unable to perform its obligations, including but not limited to, failure of or threat of failure of facilities, flood, earthquake, storm, fire, lightning and other natural catastrophes, epidemic, war, riot, civil disturbance or disobedience, strike, labor dispute, labor or material shortage, sabotage, government priorities and restraint by court order or public authority, and action or inaction by, or failure to obtain the necessary authorizations or approvals from, any governmental agency or authority, which by exercise of due diligence the party could not reasonably have been expected to avoid and which by exercise of due diligence it is unable to overcome. Nothing contained herein may be construed to require either party to settle any strike or labor dispute in which it is involved.

17. General Provisions.

17.1 Effective Date. This Agreement is effective upon execution of the Agreement by all parties.

17.2. Recitals Incorporated. All of the recitals made herein are incorporated by reference.

17.3 Authorized Representatives. Within 30 days after execution of this Agreement, each party will designate in writing to the other party an authorized representative ("Representative") and an alternate ("Alternate") to administer the provisions of this Agreement

on behalf of the designating parties. An Alternate may act only in the absence of the Representative. Written notice of a change of Representative or Alternate must be provided at least 30 days before such change becomes effective. Arrangements or understandings of the representatives pursuant to this Agreement must be in writing and signed by them, but notwithstanding the foregoing, neither the Representatives nor the Alternates have authority to amend this Agreement.

17.4 Binding Effect. The provisions of this Agreement inure to the benefit of and be binding upon the respective heirs, personal representatives, successors and assigns of the Parties, but no assignment or transfer of this Agreement or any interest therein is valid until approved in writing by the other party. Such approval may not be unreasonably withheld.

17.5 Notices. Any notice given pursuant to this Agreement must be in writing and be personally delivered or deposited in the United States mail, postage prepaid, certified and return receipt requested to the Parties as follows:

To Water Company:	Sun City West Utilities Company P.O. Box 1687 Sun City, Arizona 85372 Attn: General Manager
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To Briarwood:	Briarwood Country Club 20800 N. 135 th Avenue Sun City West, Arizona 85375 Attn: John Kauffmann, General Manager
---------------	---

Notices are deemed given when personally delivered or, if mailed, five days after the deposit of the notice in the U.S. mail. If a notice initiates the running of a time period for the performance of, or compliance with, any obligation or duty set forth in this Agreement, the notice must be sent certified, return receipt requested. Any party hereto must give written notice of a change of address to the other party as provided above.

17.6 Good Standing; Authority. Each of the Parties represents and warrants to the other party: (a) that it is duly formed, validly existing and in good standing under all applicable laws; and (b) that the individual(s) executing this Agreement on behalf of the respective parties are authorized and empowered to bind the Parties on whose behalf each such individual is signing.

17.7 Exhibits. Any exhibit hereto is incorporated herein by this reference with the same force and affect as if fully set forth in the body hereof.

17.8. Attorney's Fees. If any action is brought by any party with respect to its rights under this Agreement, the prevailing party or parties are entitled to reasonable attorney's fees and court costs from the other party or parties as determined by the court.

17.9 Entire Agreement. The terms, covenants and condition of this Agreement constitute the entire agreement between the Parties and no understandings or obligations not expressly set forth herein are binding upon them. All prior and contemporaneous agreements, representations and understandings of the Parties, oral or written, on the subject matter of this Agreement, are hereby superseded and merged herein.

17.10 Further Documentation. Each party agrees in good faith to execute, deliver, acknowledge or record further or additional documents, approvals or consents as are required or desirable in order to fully carry out the intent and purpose of this Agreement.

17.11 Governing Law. This Agreement is made under and is governed by the laws of the State of Arizona. Subject to the provisions of Paragraph 16, all proceedings related to this Agreement will be maintained in the courts of the State of Arizona (including the United States District Court for the District of Arizona), which courts have jurisdiction over those proceedings.

17.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which is an original, but all of which constitute one and the same instrument. The signature pages from one or more counterparts may be removed from such counterparts and attached to a single instrument so that the signatures of all parties may be physically attached to a single document.

17.13 Amendments and Modifications. This Agreement may be modified, amended, rescinded, cancelled or waived, in whole or in part, only by a written instrument executed by all parties.

17.14 Severability. If any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable statute or rule of law, the provision is deemed null and void, but the remainder of this Agreement remains in full force and effect.

17.15 No Partnerships. The Parties to this Agreement may not be deemed to have formed a partnership or joint venture by their execution of this Agreement. The provisions of this Agreement are not intended to be for the benefit of any person, firm, organization or corporation not a party hereto and no such person or entity have any rights or cause of action under this Agreement.

17.16 Waiver. No delay in exercising any right or remedy will constitute a waiver thereof, and no waiver by any party of the breach of any covenant of this Agreement may be construed as a waiver of any preceding or succeeding breach of the same or any other covenant or condition of this Agreement.

17.17 Compliance with Laws. Briarwood agrees to comply with all applicable local, state and federal laws and permit requirements specifically including all requirements of the Arizona Groundwater Code.

17.18 Books and Records. Briarwood must establish and maintain books and records pertaining to use of water under this Agreement, including data on water received and used and any reports filed with ADWR. Subject to applicable laws and regulations, each party to this Agreement has the right during office hours to examine and make copies of each other's books and records relating to this Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the day and year first above written on behalf of Water Company and Briarwood by the respective company officials.

SUN CITY WEST UTILITIES COMPANY

Date: 12/14/00

By: Ray L. Jern
Its: Vice President & General Manager

BRIARWOOD COUNTRY CLUB

Date: 12/14/00

By: David L. Bach
Its: President

EXHIBIT A

LOCATIONS OF USE AND POINTS OF DELIVERY

EXHIBIT B
OPERATING AGREEMENT

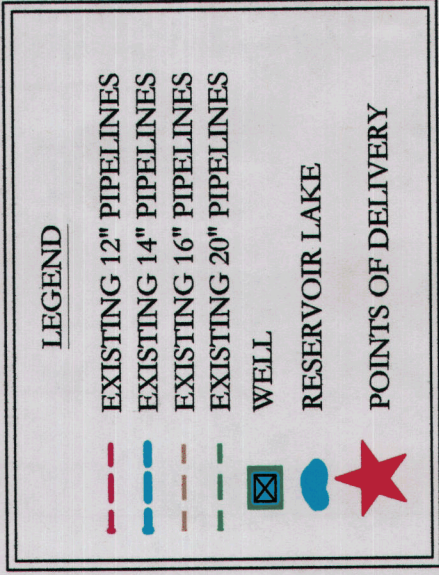


EXHIBIT A
LOCATIONS OF USE AND
POINTS OF DELIVERY

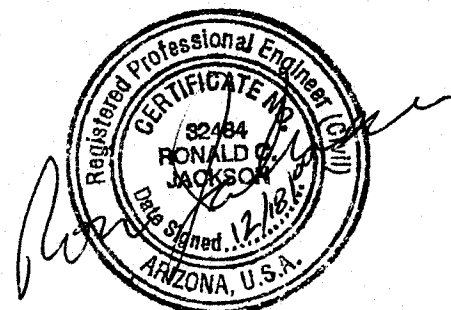
Sun City West
EXISTING
DISTRIBUTION NETWORK



**Supplemental Engineering Report
Upon the Effect of the Non Participation of
Hillcrest Country Club in the
Sun City/Sun City West/Youngtown Groundwater
Savings Plan**

December 18, 2000

Prepared By:
Citizens Water Resources
12425 W. Bell Road, Suite C306
Surprise, AZ 85374
(623) 815-4309



1. Purpose

The current version of the Groundwater Savings Plan Preliminary Engineering Report indicated (on Page A-4) that "without the participation of the two private courses in Sun City West, the GSP will not be operationally feasible". This supplemental report takes a closer look at the data to determine if the Groundwater Savings Plan could be operationally feasible without the participation of Hillcrest Country Club.

There were two factors studied which led to the statement in the current report indicated above.

The first factor is the need to fully consume the entire quantity of CAP water allotted to Sun City West on an annual basis.

The second factor is need for volumetric flexibility. Volumetric flexibility is a safety mechanism designed into the system by which excess water can be stored or diverted from its intended destination should that destination become unavailable, either suddenly or over an extended period, to receive that water.

Both of these factors have been restudied and the results of that work are explained below.

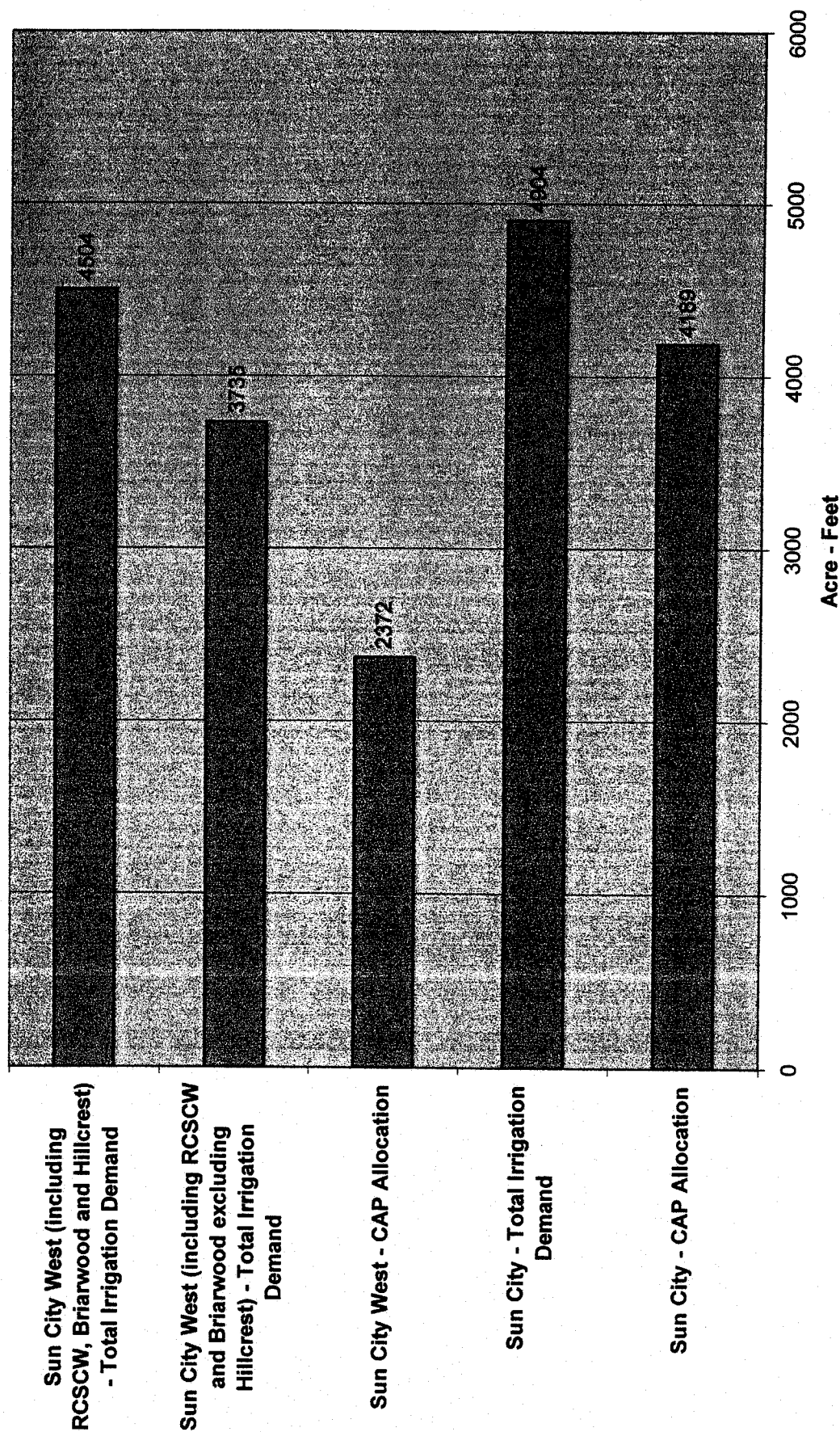
2. CAP Water Consumption

The annual CAP water allocation to Sun City West is 2,372 acre feet. The average annual irrigation water consumption of all the Recreation Centers of Sun City West golf courses plus Hillcrest and Briarwood County Club golf courses is 4,504 acre feet. The average annual irrigation water consumption of all Recreation Centers of Sun City West and Briarwood golf courses is 3,735 acre feet. See the attached Figure No. 1 for a graphic representation of the above.

The annual CAP water allocation to Sun City West would account for 53% of the total irrigation needs of the Sun City West golf courses should all the Recreation Centers of Sun City West golf courses plus Hillcrest and Briarwood County Club golf courses participate in the Groundwater Savings Plan. Should Hillcrest County Club decide to not participate, the annual CAP water allocation to Sun City West would account for 64% of the total irrigation needs of the Sun City West golf courses participating. This percentage can be compared to the annual CAP water allocation to Sun City which meets 85% of the total irrigation needs of the Recreation Centers of Sun City golf courses.

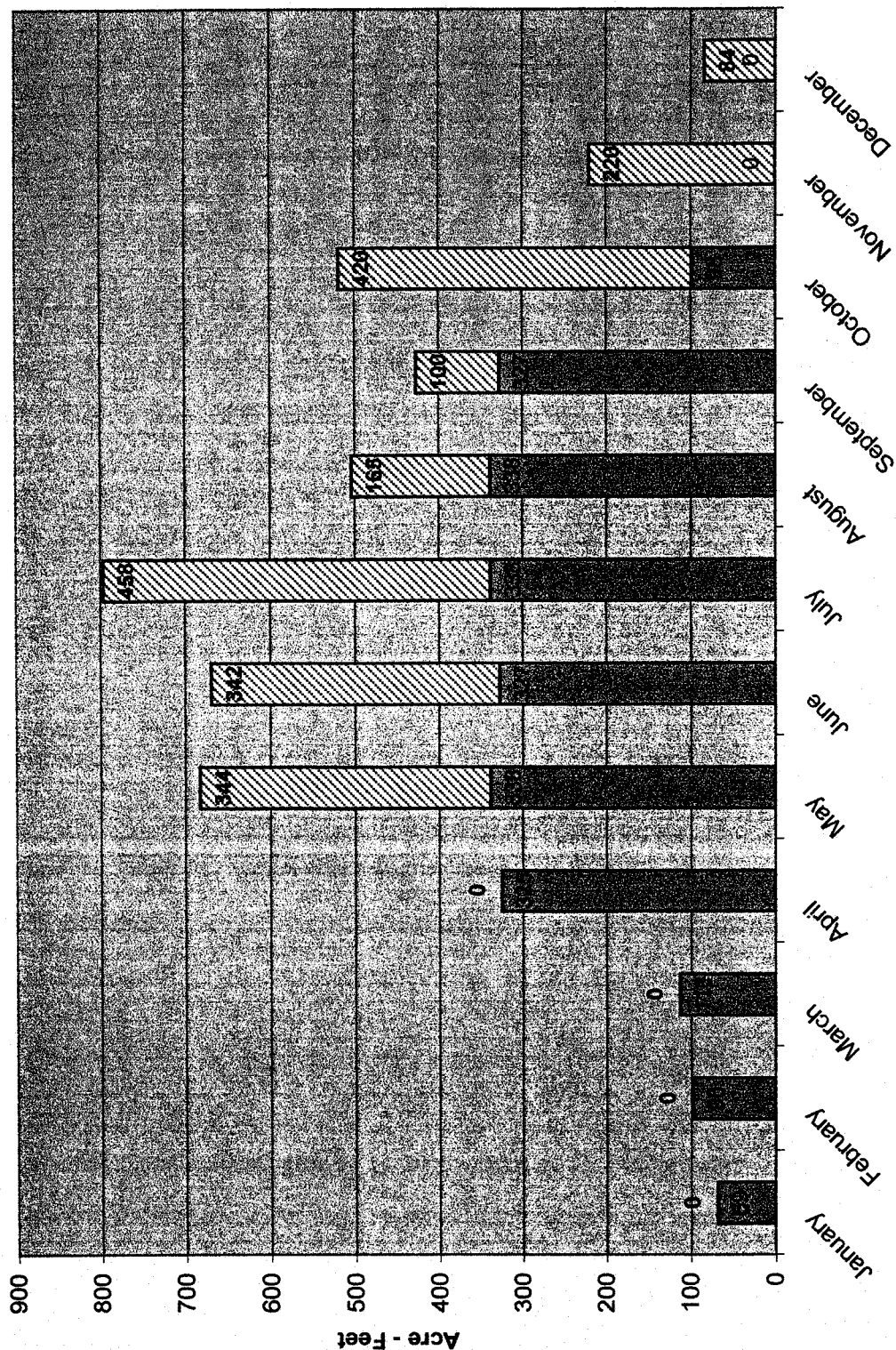
The proposed average irrigation makeup for Sun City West under the Groundwater Savings Plan is shown on attached Figures No. 2 and 3. Figure No. 2 shows the irrigation makeup with the Recreation Centers of Sun City West golf courses plus Hillcrest and Briarwood County Club golf courses. Figure No. 3 shows the irrigation

Figure No. 1
CAP Allocation Vs. Total Irrigation Demand



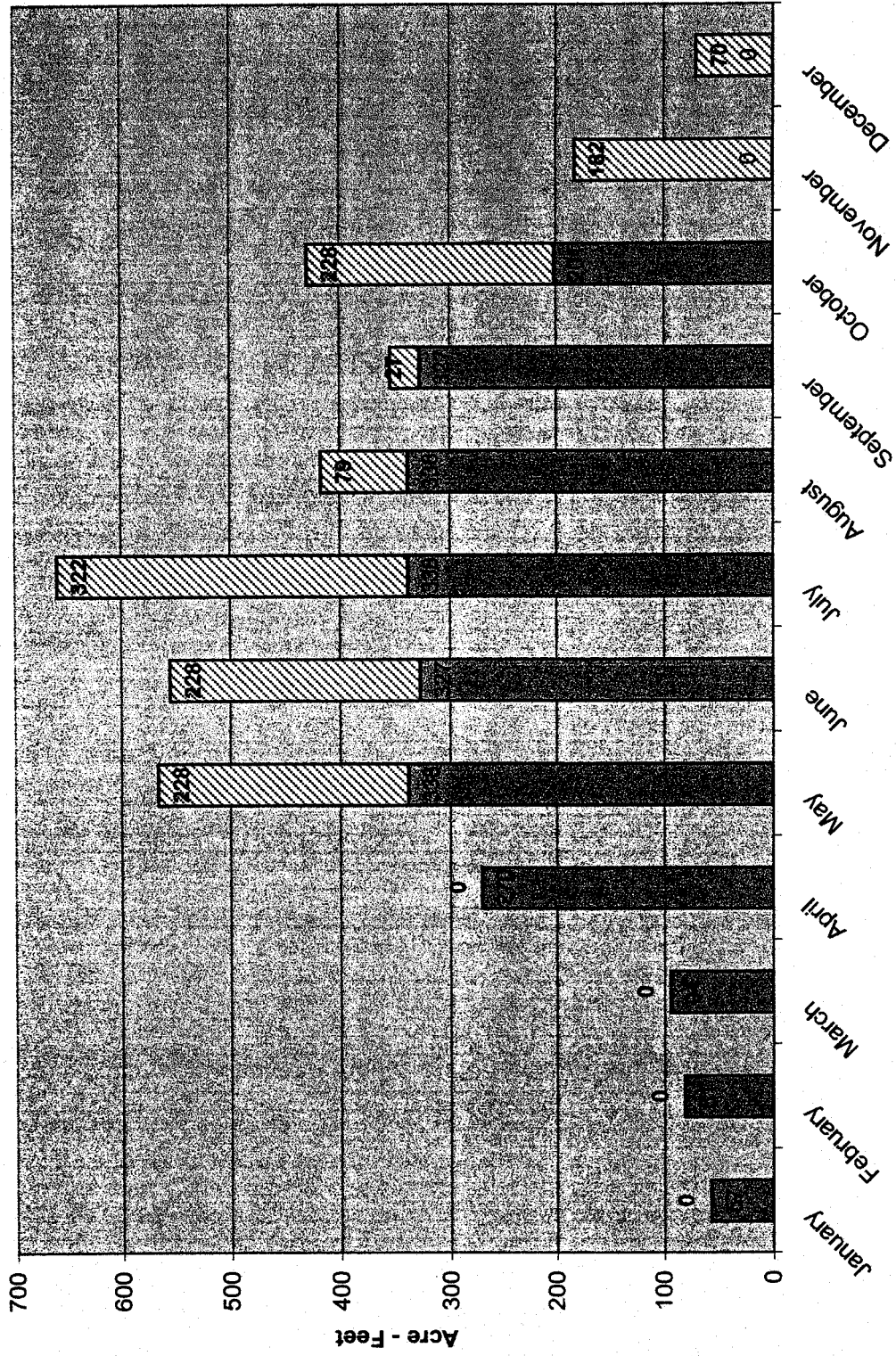
▨ Well Contribution
 ■ CAP Contribution

Figure No. 2
Sun City West Irrigation Makeup including RCSCW, Hillcrest & Briarwood



▨ Well Contribution
 ■ CAP Contribution

Figure No. 3
 Sun City West Irrigation Makeup including RCSCW and Briarwood excluding Hillcrest



makeup with the Recreation Centers of Sun City West golf courses plus Briarwood County Club golf course (i.e. Hillcrest not participating). The figures demonstrate the amount of CAP and well water that will be consumed by all participating golf courses on a month by month basis.

As is shown on the attached figures the entire annual Sun City West CAP allocation will be consumed whether Hillcrest Country Club participates or not. Furthermore, in either case the Sun City West CAP allocation is consumed by October each year. This leaves two months at the end of the year to irrigate with CAP water should factors such as high rainfall prevent the full allocation from being consumed by October.

3. Volumetric Flexibility

Volumetric flexibility is a safety mechanism designed into the piping network by which excess water and/or pressure can be stored or diverted from its intended destination should that destination become unavailable, either suddenly or over an extended period, to receive that water.

An example of the need for extended volumetric flexibility would be a period unusually rainy weather. Records indicate that on an average basis golf courses in Sun City West use 0.5 inches or less of irrigation water per day during the heaviest irrigation month of the year (i.e. July). A search of weather records for a rain gauge maintained by Maricopa County at Bell Road near Dysart Road indicates 15 occurrences in the past 5 years of 24 hour rainfall totals of 0.5 inches or more. When a large storm occurs, a golf course will require little or no irrigation water. Should a storm develop suddenly, it is possible that water would have been ordered or the conveyance of that water already begun from CAP for that day. The system operator will then have to store that water, possibly in already full lakes in the system, which will not be using water for possibly a day or more.

An example of the need for sudden volumetric flexibility would be a pipe break (which would require temporary shut down for repair) or a valve sticking closed at any given golf course just as the system operator was conveying water to that course.

In the event of either of the examples given above the water flow must be stored or sent somewhere other than its intended destination so as to prevent the loss of water from a pipe break and/or to prevent the violation of the CAP's flow adjustment rules. These situations are temporary in nature, lasting for a few hours or up to a day, but require immediate, temporary measures to allow the system operator to rebalance the system as a whole.

Major consideration was given to the lake within the Hillcrest Country Club golf course as a facility which lends volumetric flexibility to the Sun City West system. Since the lake has a large surface area (23.70 acres, the largest in Sun City West), a

large quantity of water could be store in or diverted to that lake resulting in only a small rise in surface elevation.

The same consideration was given to the operation of the Sun City West system should Hillcrest Country Club chose to not participate. The lakes in the Recreation Centers of Sun City West golf courses have a total surface area of 51.61 acres and Briarwood Country Clubs lakes have a surface area of 4.10 acres for a total of 55.71 acres. Assuming that no water was used for a 1 day period and that the maximum amount of water that the Sun City West piping system can convey in 1 day (10.91 acre feet) must be stored within all of the participating golf course lakes, that storage would result in a lake surface elevation rise of 2.35 inches in all of the lakes of the participating golf courses. This magnitude of rise is considered tolerable.

It is also possible to temporarily transfer Sun City West's water to lakes in Sun City which have 102.70 acres of lake surface area (including Viewpoint and Dawn lakes which both have surface areas of 37.50 acres). If excess water for Sun City West's allocation was diverted to Sun City lakes, water delivery to Sun City would be throttled back after the event that created the need for the diversion had passed until Sun City West had fully recovered its diverted volume. This would result in no net loss of allocated CAP volume form Sun City West.

The hydraulic capability of existing Sun City West piping system was reevaluated without flow demand from Hillcrest Country Club. Calculations determined that CAP water can be delivered to the Recreation Centers of Sun City West and Briarwood Country Club at the maximum capacity of the existing piping system with sufficient pressure for proper system operation without Hillcrest Country Club participating.

4. Conclusion

Based on calculation and considerations indicated above, the implementation of the Groundwater Savings Plan in Sun City West will be possible should Hillcrest Country Club golf course decide to not participate. Although the participation of the Hillcrest Country Club would lend overall flexibility to the system, it is not necessary for the operation of the Groundwater Savings Project.

The entire annual CAP allocation to Sun City West can be consumed by the Recreation Centers of Sun City West and Briarwood golf courses during the calendar year of the allocation.

The Sun City West conveyance system to will be provided with adequate volumetric flexibility through lake volume to allow for safe and continuous operation.

GALLAGHER & KENNEDY

P.A.

ATTORNEYS AT LAW

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WWW.GKNET.COM

November 13, 2000

VIA HAND DELIVERY

Robert Metli, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: *Sun City Water Company and Sun City West Utilities Company
Docket Nos. W-01651A-98-0577 and SW-02334A-98-0577*

Dear Mr. Metli

Here are Citizens Communications Company's responses to Staff's first set of data requests CMF 1-1 through 1-5 submitted with your November 2, 2000 letter. As requested, I've enclosed an original and one copy of the responses and attachment.

If you have any questions or comments regarding these responses, please contact Terri Sue Rossi (623-815-3149) or Ray Jones (602-815-3124).

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Todd C. Wiley

Enclosures

cc: Terri Sue Rossi (w/encl.)

TCW/lmm

3099-0043/882393

**CITIZENS COMMUNICATIONS COMPA
SUN CITY AND SUN CITY WEST WATER
DOCKET NOS. W-01656A-98-0577 & SW-02334A-98-0577
STAFF'S FIRST SET OF DATA REQUESTS**

WITNESS: TERRI SUE C. ROSSI

REQUEST NO. CMF 1-1:

Exhibit A, (Location of Use and Points of Delivery) and Exhibit B, (Operating Agreement) were not included in the Binding Agreements filed on October 31, 2000. Should the Commission expect a late filing by the Sun Cities of the above mentioned exhibits?

RESPONSE:

Exhibit A was inadvertently excluded from the copies of the agreements forwarded to the Commission. Exhibit A is attached as Exhibit TSCR 1-1 (A).

The Operating Agreement, per the Agreement, is scheduled to be completed December 31, 2000. This agreement will focus on daily operations of the project including water ordering and delivery schedules. The Operating Agreement will not contain provisions that will affect the exchange charge described in the Agreement. When the Operating Agreement is executed by the parties, Citizens will forward a copy of the Operating Agreement to the Commission.

REQUEST NO. CMF 1-2:

Please provide the number of acre-feet (AF) used by the golf courses referenced in the Sun City Water Binding Agreement for the calendar year ended 1999.

RESPONSE:

The golf courses operated by the Recreation Centers of Sun City pumped 5,872 acre-feet of groundwater in 1999. Please see response to CMF 1-4 for a more detailed breakdown of water pumped by each course.

REQUEST NO. CMF 1-3:

Please provide the number of acre-feet (AF) used by the golf courses referenced in the Sun City West Binding Agreement for the calendar year ended 1999.

RESPONSE:

The golf courses operated by the Recreation Centers of Sun City West pumped 3,092 acre-feet of groundwater in 1999. Please see response to CMF 1-4 for a more detailed breakdown of water pumped by each course.

**CITIZENS COMMUNICATIONS COMPANY
SUN CITY AND SUN CITY WEST WATER
DOCKET NOS. W-01656A-98-0577 & SW-02334A-98-0577
STAFF'S FIRST SET OF DATA REQUESTS**

WITNESS: TERRI SUE C. ROSSI

REQUEST NO. CMF 1-4:

Regarding the Payment for Exchange Water (Exchange Charge"): how much would the 80 percent of purchased pumping power be based on the 1999 calendar year pumping power costs incurred by the golf courses? Please provide calculations as to the number of kilowatt hours used and the current tariff rate.

RESPONSE:

In Sun City, the exchange charge would be \$37.08 based on the energy costs paid by the Recreation Centers of Sun City in 1999 to operate its wells. In Sun City West, the exchange charge would be \$50.71 based on the energy costs paid by the Recreation Centers of Sun City West in 1999 to operate its wells.

These charges are calculated based on taking the total dollars billed by APS for energy meters associated with the wells divided by the number of acre-feet pumped out of the well.

In comparison to the assumptions prepared by the CAP Task Force, Exhibit J of the Task Force's Final Report assumed the exchange charge would be \$37 per acre-foot in Sun City and \$47.50 per acre-foot in Sun City West.

The exchange charge was calculated by Citizens based on information provided by each Recreation Center as a part of the negotiation process so that all the parties could understand how the exchange charge would be established. The Recreation Centers did not provide kilowatt hours used or the tariffs for each bill. If Staff needs this additional information to conduct its analysis, Citizens can request that each Recreation Center contact APS to prepare a report that will provide this additional information.

**CITIZENS COMMUNICATIONS COMPANY
SUN CITY AND SUN CITY WEST WATER
DOCKET NOS. W-01656A-98-0577 & SW-02334A-98-0577
STAFF'S FIRST SET OF DATA REQUESTS**

WITNESS: CARL W. DABELSTEIN

REQUEST NO. CMF 1-5:

To what revenue account (above or below the line) would Sun City and Sun City West Utilities record the income derived from the Exchange Charge?

RESPONSE:

The revenues to be derived from the Exchange Charge would be considered as an item of operating revenue, to be recorded above-the-line.

882389

(SEE FIGURE D.6)

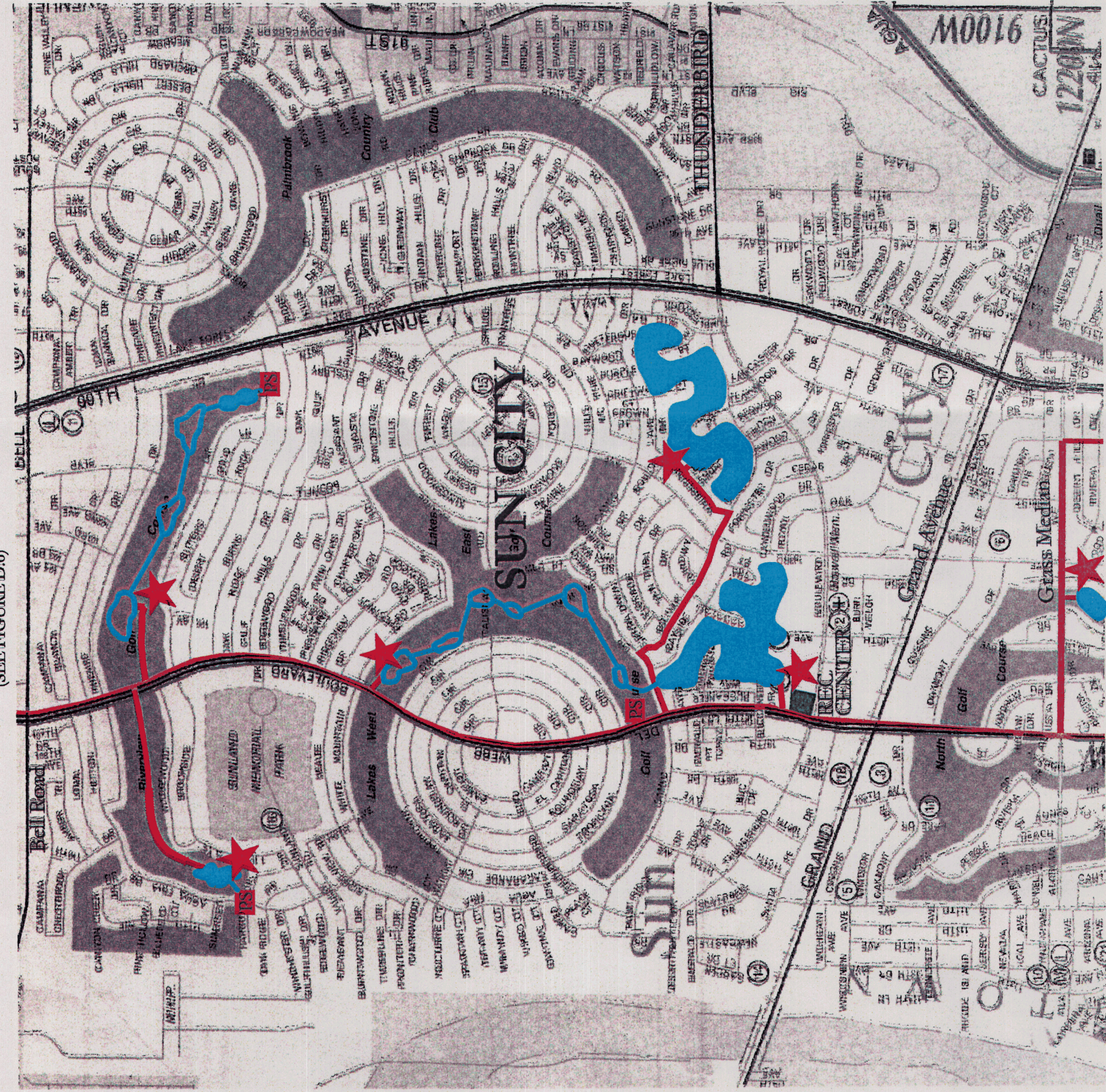
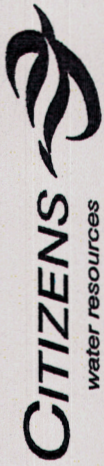


EXHIBIT A
LOCATIONS OF USE AND
POINTS OF DELIVERY

Sun City
PROPOSED
DISTRIBUTION NETWORK

(SEE FIGURE D.8)



SUN CITY / SUN CITY WEST / YOUNGTOWN
GROUND WATER SAVINGS PROJECT

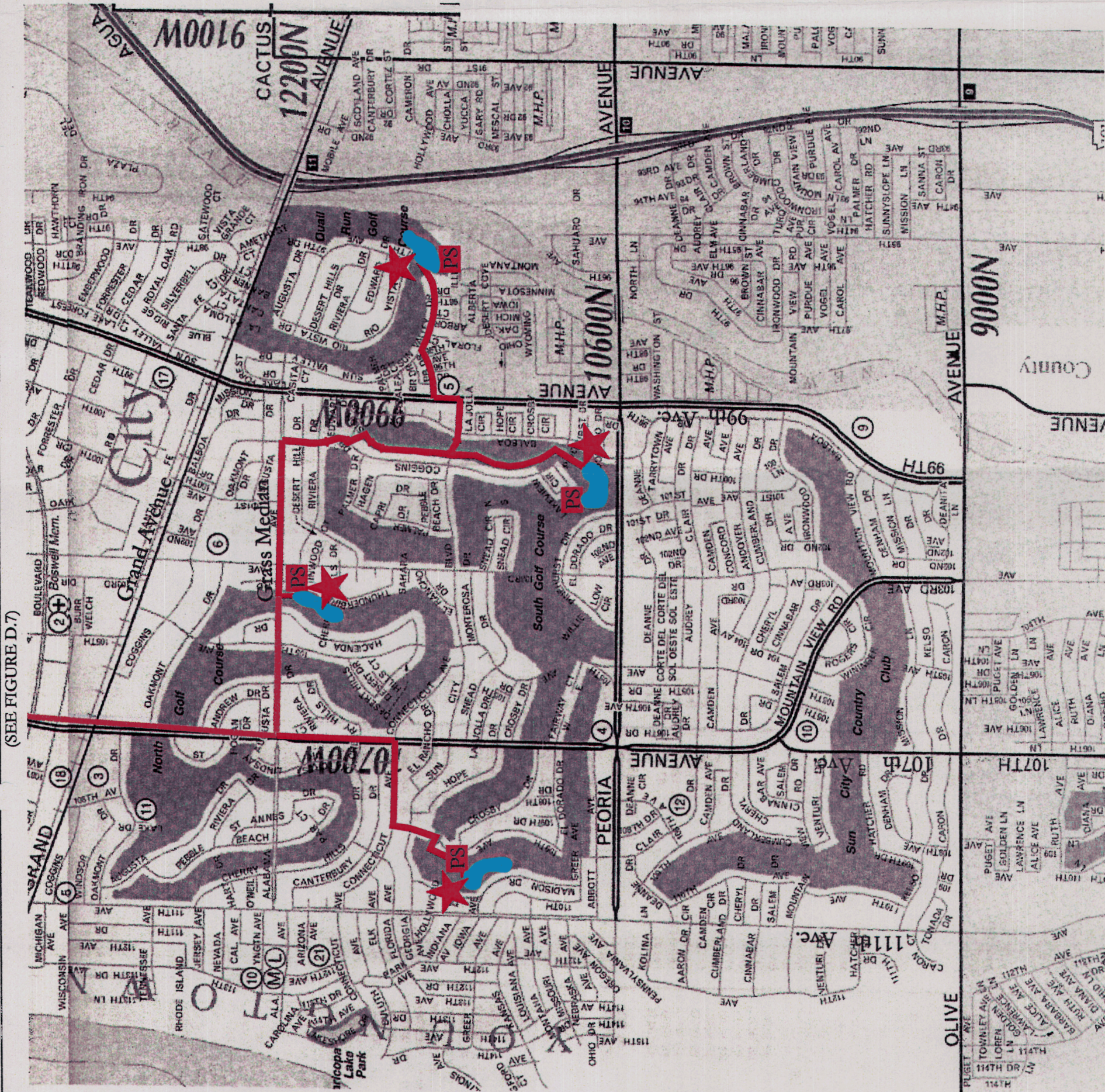


LEGEND

- PROPOSED 12" PIPELINES
- PROPOSED 16" PIPELINES
- PUMP STATION
- RESERVOIR LAKE
- POINTS OF DELIVERY

EXHIBIT A
LOCATIONS OF USE AND
POINTS OF DELIVERY

Sun City
PROPOSED
DISTRIBUTION NETWORK



(SEE FIGURE D.7)

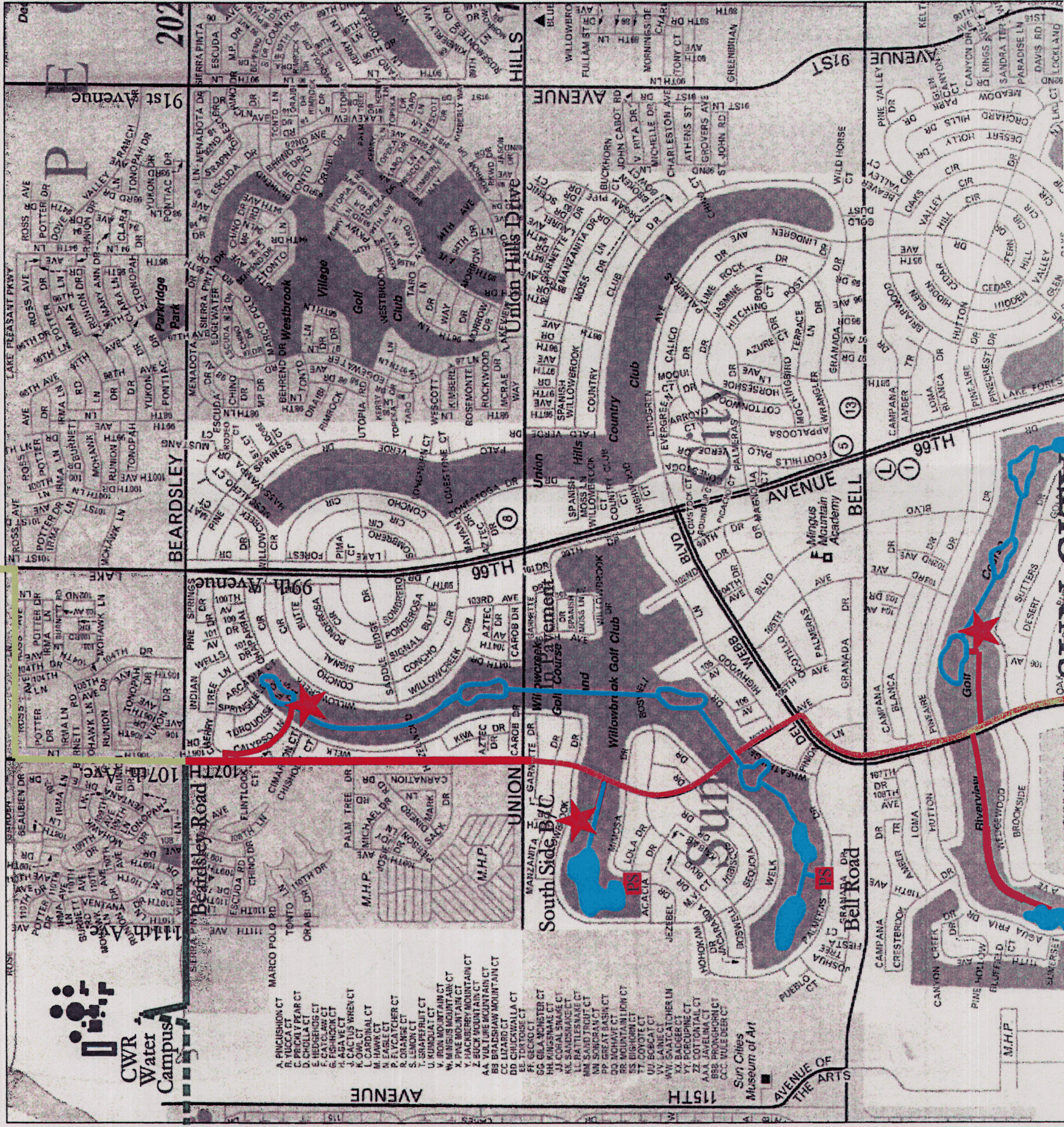


LEGEND

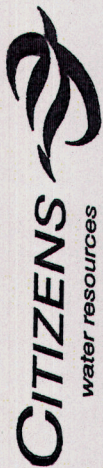
- PROPOSED 12" PIPELINES
- PROPOSED 16" PIPELINES
- PROPOSED 20" PIPELINES
- PROPOSED 24" PIPELINES
- PROPOSED 24" MAINLINE
- PUMP STATION
- RESERVOIR LAKE
- POINTS OF DELIVERY

**EXHIBIT A
LOCATIONS OF USE AND
POINTS OF DELIVERY**

**Sun City
PROPOSED
DISTRIBUTION NETWORK**



(SEE FIGURE D.7)



SUN CITY / SUN CITY WEST / YOUNGTOWN
GROUND WATER SAVINGS PROJECT



LEGEND

EXISTING 12" PIPELINES

EXISTING 14" PIPELINES

EXISTING 16" PIPELINES

EXISTING 20" PIPELINES

WELL

RESERVOIR LAKE

POINTS OF DELIVERY

EXHIBIT A
LOCATIONS OF USE AND
POINTS OF DELIVERY

Sun City West
EXISTING
DISTRIBUTION NETWORK

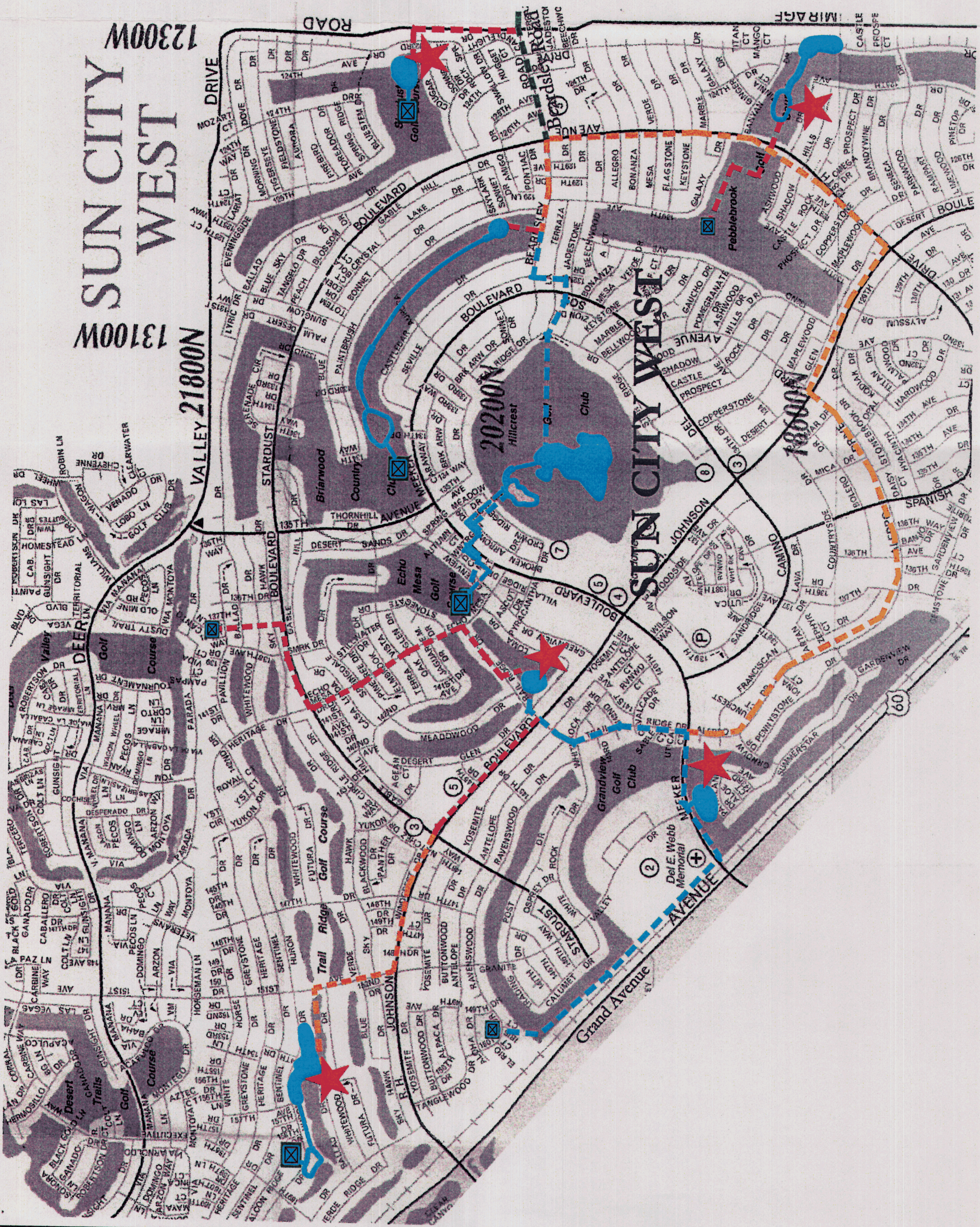


EXHIBIT D

LINE		SUN CITY	SUN CITY WEST	COMBINED
RATE BASE				
1	OCLD (Test Year)	13,675,576	6,235,619	
2	Groundwater Savings Project [1]	11,439,586	3,597,114	
3	TOTAL	25,115,162	9,832,733	34,947,895
REVENUES				
4	Test Year	5,731,330	2,898,832	
5	Rate Adjustment Decision 60172	(271,221)	(197,907)	
6	Exchange Charge Revenue [2]	155,328	120,284	
7	TOTAL	5,615,437	2,821,209	8,436,646
EXPENSES				
8	Test Year	4,369,060	2,232,815	
9	GSP Dep (@2.3%)	263,110	82,734	
10	GSP O&M	65,563	21,512	
11	CAP Water (@\$101/af) [3]	423,089	239,572	
12	CAP Deferred [4]	-	-	
Revenue Related Income Tax Impacts				
13	Income Tax impact - Rate Adjustment [5]	(106,536)	(77,738)	
14	Income Tax impact - Exchange Charge [6]	61,013	47,248	
Expense Related Income Tax Impacts				
15	Income Tax Impact - GSP & CAP Expenses [7]	(295,292)	(135,052)	
Financing Related Income Tax Impacts				
16	Income Tax impact - Debt Financing [8]	(137,379)	(43,198)	
17	TOTAL	4,642,629	2,367,893	7,010,521
18	Net Operating Income [Line 7 - Line 17]	972,809	453,316	1,426,125
19	Revenue Requirement [8.73% * Line 3]	2,192,554	858,398	3,050,951
20	Earnings Deficit [Line 19 - Line 18]	1,219,745	405,081	1,624,826
21	Conversion Factor	1.65152	1.65152	
22	Required Increase [Line 21 * Line 20]	2,014,433	669,000	2,683,433
23	Increase Percentage [Line 22 / Line 7]	35.87%	23.71%	31.81%
24	Increase Per SCTA Exhibit A	61.23%	44.38%	55.65%
25	Percent Overstatement by SCTA [9]	70.7%	87.2%	75.0%

[1] Estimate per July 2000 Preliminary Engineering Report - \$345,853 greater than SCTA Exhibit A

[2] Estimated revenue from exchange agreements with golf courses

[3] Firm 2001 Rate from 6/22/00 Cap Water Rate Schedule

[4] Deferred CAP charges are currently being collected in accordance with Decision 62293 and will terminate in February 2005. It is not appropriate to include these costs as part of the GSP

[5] Income tax reduction resulting from rate adjustment per Decision 60172 - (Combined Fed/State rate of 39.28%) * (Line 5)

[6] Income tax increase resulting from exchange charge revenue - (Combined Fed/State rate of 39.28%) * (Line 6)

[7] Income tax increase resulting from CAP and GSP Expenses (Combined Fed/State rate of 39.28%) * (Line 9 + Line 10 + Line 11)

[8] Income tax reduction resulting from debt financing (interest deduction) of Groundwater Savings Project (Debt Capital 43%) * (Interest rate 7.11%) * (Line 2) * (Combined Fed/State rate of 39.28%) [From Decision 60172]

[9] [(Line 23-Line 24)/Line 23]